

# REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON CAMDEBOO MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

- 1 I have audited the accompanying financial statements of the Camdeboo Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages ... to ...

### Accounting officer's responsibility for the financial statements

- 2 The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

- 3 As required by section 185 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
- 4 I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- 5 An audit involves performing procedures to obtain audit evidence for the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 6 I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

- 7 In my opinion, the financial statements present fairly, in all material respects, the financial position of the Camdeboo Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the MFMA and DoRA.

#### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Irregular expenditure**

9. As disclosed in note 58 to the financial statements the municipality incurred irregular expenditure of R8.7 million due to non-compliance with the Supply Chain Management (SCM) regulations.

#### **Restatement of corresponding figures**

10. As disclosed in note 4 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of Camdeboo Municipality at and for the year ended, 30 June 2010.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

11. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33672 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

#### **Predetermined objectives**

##### **Presentation of information**

12. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Performance against predetermined objectives was reported using the National Treasury guidelines.

13. Audit findings:

##### **Measures taken to improve performance were not provided in the performance report**

14. Measures taken to improve performance were not provided in the performance report, as required in section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). In total, all of the reported targets had no details of the measures taken to improve performance.

##### **Usefulness of information**

15. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are consistent with the planning and reporting documents.
- Measurability: Indicators are well-defined and verifiable and targets are specific.

16. Audit findings:

##### **Reported objectives, indicators and targets are not consistent when compared with the planned objectives, indicators and targets**

17. The actual achievements with regard to 60% of all planned objectives, indicators and targets specified in the IDP for the year under review were not included in the report on predetermined objectives submitted for audit purposes.

**Planned and reported targets are not specific**

- 18 For the selected programmes, all of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance

**Planned and reported indicators are not well defined**

- 19 For the selected programmes, 96% of the planned and reported indicators were not clear as unambiguous data definitions were not available to allow for data to be collected consistently

**Planned and reported indicators are not verifiable**

- 20 For the selected programmes, valid performance management processes and systems that produce actual performance against the planned indicators do not exist for all of the indicators

**Reliability of information**

- 21 The reported performance information was deficient in respect of the following criteria

- **Validity** The reported performance did occur and does pertain to the entity
- **Accuracy** The amounts, numbers and other data relating to reported actual performance have been recorded and reported appropriately
- **Completeness** All actual results and events that should have been recorded have been included in the reported performance information.

**22 Audit findings**

**The content of the integrated development plan (IDP) is incomplete**

- 23 The IDP did not include the key performance indicators and performance targets as should be determined in accordance with its performance management system, as required by sections 26(j) and 41(1)(b) of the MSA and regulation 12 of the Local Government Municipal Planning and Performance Management Regulations, 2001 (MPPR) published in *General Notice 796 of 24 August 2001*

**The validity, accuracy and completeness of reported performance against indicators could not be confirmed as no supporting source documentation was provided**

- 24 For the following selected programmes, the validity, accuracy and completeness of all of the reported indicators could not be established as sufficient appropriate audit evidence and relevant source documentation could not be provided:

- Housing
- Roads and Construction
- Sanitation
- Water

**Reported performance against targets is not valid, accurate and complete when compared to source information**

- 25 For the following selected programme, all of the reported targets were not valid, accurate or complete based on the source information or evidence provided:

- Electricity

## **Compliance with laws and regulations**

### **Strategic planning and performance management**

- 26 The municipality did not adopt and implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed including determining the roles of the different role players as required by sections 36, 39, 40 and 41 of the MSA and regulations 7 and 8 of the MPPR.
- 27 The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its IDP as required by section 46 of the MSA, as the IDP only had two key performance indicators defined.
- 28 The IDP did not include a financial plan which includes a financial strategy that defines sound financial management and expenditure control, as well as ways and means of increasing revenues and external funding for the municipality and its development priorities and objectives as required by Section 2 (3)(c) of the MPPR.
- 29 The IDP did not ensure that the resources and capacity of the municipality is aligned as there was no budget allocation made to the Local Economic Development (LED) priorities as required by section 25(1) of the MSA.

### **Budget**

- 30 The mayor did not submit all quarterly reports to council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

### **Annual financial statements, performance and annual report**

- 31 The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

### **Internal audit**

- 32 The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by regulation 14(1)(b)(iii) of the MPPR.
- 33 The internal auditors of the municipality did not audit the performance measurements on a continuous basis as required by regulation 14 of the MPPR.

### **Procurement and contract management**

- 34 Goods and services with a transaction value of between R10 000 and R100 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).

- 35 Awards were made to suppliers who did not submit a declaration of their employment by the state or their relationship to a person employed by the state as per the requirements of SCM regulation 13(c).

#### **Human resource management and compensation**

- 36 The municipal manager did not provide job descriptions for each post in the staff establishment as required by section 66(1)(b) of the MSA.

#### **Expenditure management**

- 37 The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval and authorisation of funds, as required by section 65(2)(a) of the MFMA.
- 38 The accounting officer did not take reasonable steps to prevent unauthorised expenditure and irregular expenditure as required by section 62(1)(d) of the MFMA.

#### **Asset management**

- 39 The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2)(c) of the MFMA.

### **INTERNAL CONTROL**

- 40 In accordance with the PAA and in terms of *General Notice 1211 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies regarding the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

- 41 No formal performance and financial policies and procedures have been implemented which means that the leadership of the municipality are not able to effectively provide oversight. Performance of the municipality has not been measured against predetermined objectives as set in the IOP and only section 57 managers are subjected to performance measurement which does not set the correct tone at the top.
- 42 The lack of effective processes and procedures to prevent and detect irregular expenditure affects management's ability to effectively mitigate risk. This is evidenced by the fact that the municipality does not have formal risk assessment policies and procedures in place. The lack of these policies and procedures weakens the internal control environment which resulted in material misstatements in the financial statements.
- 43 Information technology (IT) systems have not been established to ensure strategic alignment between management's goals and the financial systems which point to a lack of adequate systems over these areas and increase the risk over accurate and reliable financial and performance reporting and monitoring of compliance with laws and regulations. The necessary IT policies and procedures should be adopted by Council to ensure that the municipality's IT function supports the financial systems and reporting for there to be a correlation between management's goals and what is eventually reported on.

### Financial and performance management

- 44. No performance management system was established by the municipality resulting in quarterly reports not being submitted by internal audit which resulted in material non-compliance.
- 45. Management is not scrutinising suspense accounts effectively and there is a lack of enforcement of controls over daily processing and reconciliations. There is also no evidence as to the processes in place over maintenance of the asset register. This resulted in the financial statements not being prepared in all material respects of the MFMA and material audit adjustments had to be made.


### Governance

- 46. The risk assessment process does not specifically address the risk of material misstatement and as such is not an effective risk management tool. Not all significant risks were identified by the municipality which resulted in material adjustments to the financial statements.
- 47. Internal audit did not report on SCM or on performance information. No reports were submitted to the audit committee in this regard and the audit committee did not report on this to management. Although a high level review of the annual financial statements was performed by the audit committee, the financial statements were subject to material audit adjustments.

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East London

30 November 2011

  
Auditor-General  
South African Revenue Service

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